



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LEWIS COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEWIS COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Lewis County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$3,340,190 from the prior fiscal year due to expenditure of bond proceeds for Lewis County Justice Center construction, resulting in a cash surplus of \$2,045,663 as of June 30, 2001.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$5,820,000. Future collections of \$10,052,957 are needed over the next 25 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$1,562,200 as of June 30, 2001. Future collections of \$2,404,268 are needed to meet these obligations.

Report Comments:

- Lewis County Fiscal Court Should Budget All Expenditures
- The Lewis County Treasurer Did Not Post All Expenditures
- FEMA Buyout And Community Development Block Grant Funds Were In A Deficit At The End Of The Fiscal Year
- The Lewis County Treasurer Did Not Report All Funds On Her Quarterly Report
- Lewis County Did Not Adopt An Administrative Code

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George Plummer, Lewis County Judge/Executive

Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Lewis County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Lewis County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Lewis County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Lewis County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

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In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2002, on our consideration of Lewis County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Lewis County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following areas of noncompliance:

- Lewis County Fiscal Court Should Budget All Expenditures
- The Lewis County Treasurer Did Not Post All Expenditures
- FEMA Buyout And Community Development Block Grant Funds Were In A Deficit At The End Of The Fiscal Year
- The Lewis County Treasurer Did Not Report All Funds On Her Quarterly Report
- Lewis County Did Not Adopt An Administrative Code

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
March 14, 2002

LEWIS COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

George Plummer	County Judge/Executive
Milt Stanfield	Magistrate
Dwight Rouse	Magistrate
Tim Underwood	Magistrate

Other Elected Officials:

Clayton G. Lykins, Jr.	County Attorney
Eva Jordan	Jailer
Shirley A. Hinton	County Clerk
Kathy Hardy	Circuit Court Clerk
William Lewis	Sheriff
Betty Ripato	Property Valuation Administrator
James Estep	Coroner

Appointed Personnel:

Kathy Dillow	County Treasurer
Robert Blaine	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

LEWIS COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 345,309	
Investments	102,824	
Road and Bridge Fund:		
Cash	188,556	
Jail Fund:		
Cash	14,566	
Payroll Revolving Account - Cash	164	
Social Security Account - Cash	<u>6,840</u>	\$ 658,259

Special Revenue Fund Type

Community Center Savings Fund:

Cash	3,450
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Capital Projects Fund Type

Public Properties Corporation Fund:

Cash	1,413,288
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Other Resources

General Fund Type

General Fund:

Amounts to be Provided in Future Years for		
Capital Lease Principal Payments -		
Tollesboro Industrial Park (Note 4A)	\$ 102,200	
Lewis County Detention Center (Note 4B)	<u>1,460,000</u>	1,562,200

The accompanying notes are an integral part of the financial statements.

LEWIS COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Other Resources (Continued)

Capital Projects Fund Type

Public Properties Corporation Fund:

Amounts to be Provided in Future Years for Bond Payments (Note 4C)	\$ 4,406,712
--	--------------

Total Assets and Other Resources	<u>\$ 8,043,909</u>
----------------------------------	---------------------

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Capital Lease Obligations -

Tollesboro Industrial Park (Note 4A)	\$ 102,200	
Lewis County Detention Center (Note 4B)	<u>1,460,000</u>	\$ 1,562,200

Payroll Revolving Account	164	
Social Security Account	<u>6,840</u>	\$ 1,569,204

Special Revenue Fund Type

FEMA Buyout Fund:

Cash Deficit	14,081
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Capital Projects Fund Type

Community Development Block Grant Fund:

Cash Deficit	\$ 8,249
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Public Properties Corporation Fund:

Bonds Not Matured	<u>5,820,000</u>	5,828,249
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The accompanying notes are an integral part of the financial statements.

LEWIS COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances (Continued)

Fund Balances

Reserved:

Special Revenue Fund Type

FEMA Buyout Fund	\$	(14,081)	
Community Center Savings Fund		<u>3,450</u>	\$ (10,631)

Capital Projects Fund Type

Community Development Block Grant Fund			(8249)
--	--	--	--------

Unreserved:

General Fund Type

General Fund	\$	448,133	
Road and Bridge Fund		188,556	
Jail Fund		<u>14,566</u>	<u>651,255</u>

Total Liabilities and Fund Balances			<u>\$ 8,043,909</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LEWIS COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	<u>General Fund Type</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 4,484,234	\$ 1,532,481	\$ 1,393,685	\$ 431,943
Other Financing Sources:				
Transfers In	315,340	125,340		190,000
Lease-Purchase Proceeds	108,987	108,987		
Total Cash Receipts	<u>\$ 4,908,561</u>	<u>\$ 1,766,808</u>	<u>\$ 1,393,685</u>	<u>\$ 621,943</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 4,245,701	\$ 1,317,421	\$ 1,475,746	\$ 625,173
Other Financing Uses:				
Schedule of Unbudgeted Expenditures	112,224			
Transfers Out	315,340	190,000	124,481	
Capital Lease Obligations:				
Principal Paid	55,600	55,600		
Bonds:				
Construction Costs	3,156,448			
Trustee Fees	500			
Interest Paid	362,938			
Total Cash Disbursements	<u>\$ 8,248,751</u>	<u>\$ 1,563,021</u>	<u>\$ 1,600,227</u>	<u>\$ 625,173</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (3,340,190)	\$ 203,787	\$ (206,542)	\$ (3,230)
Cash Balance - July 1, 2000 **	<u>5,385,853</u>	<u>244,346</u>	<u>395,098</u>	<u>17,796</u>
Cash Balance - June 30, 2001 *	<u>\$ 2,045,663</u>	<u>\$ 448,133</u>	<u>\$ 188,556</u>	<u>\$ 14,566</u>

* Cash Balance Includes Investments

**Cash Balance - July 1, 2000 agrees to prior year except that Jail Canteen Fund is no longer included on this statement.

The accompanying notes are an integral part of the financial statements.

LEWIS COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

Special Revenue Fund Type			Capital Projects Fund Type	
FEMA Buyout Fund	Flood Abatement Fund	Community Center Savings Fund	Community Development Block Grant Fund	Public Properties Corporation Fund
\$ 98,143	\$	\$ 93	\$ 819,112	\$ 208,777
\$ 98,143	\$ 0	\$ 93	\$ 819,112	\$ 208,777
\$	\$	\$	\$ 827,361	\$
112,224	859			
				3,156,448
				500
				362,938
\$ 112,224	\$ 859	\$ 0	\$ 827,361	\$ 3,519,886
\$ (14,081)	\$ (859)	\$ 93	\$ (8,249)	\$ (3,311,109)
	859	3,357		4,724,397
\$ (14,081)	\$ 0	\$ 3,450	\$ (8,249)	\$ 1,413,288

The accompanying notes are an integral part of the financial statements.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Lewis County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Lewis County Public Properties Corporation as part of the reporting entity.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity will be blended with that of the Fiscal Court.

Additional - Lewis County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Lewis County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Lewis County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Lewis County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, and Jail Fund.

LEWIS COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The FEMA Buyout Fund, Flood Abatement Fund and the Community Center Savings Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Capital Projects Fund Type

Capital Project Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Community Development Block Grant Fund and the Public Properties Corporation Fund of the Fiscal Court are reported as Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Lewis County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund (Capital Projects Fund Type) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type/Special Revenue Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long-Term Debt

A. Tollesboro Industrial Park

The county has entered into a loan agreement with the Kentucky Area Development District for the Tollesboro Industrial Park for \$125,000 at 4.96% of interest with a maturity date of May 20, 2009. The outstanding balance as of June 30, 2001, was \$102,200. Debt service requirements for fiscal years ending June 30, 2002, and thereafter are as follows:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
November 20, 2001	\$ 2,535	\$ 5,500
June 20, 2002	2,398	5,600
November 20, 2002	2,259	5,800
June 20, 2003	2,115	5,900
November 20, 2003	1,969	6,100
June 20, 2004	1,818	6,200
November 20, 2004	1,664	6,400
June 20, 2005	1,505	6,500
November 20, 2005	1,344	6,700
June 20, 2006	1,178	6,800
Thereafter	3,361	40,700
Totals	<u>\$ 22,146</u>	<u>\$ 102,200</u>

B. Lewis County Detention Center

In May 1998, the county entered into a lease agreement with Kentucky Area Development District for the renovation of the County Detention Facility for \$1,550,000 at 5.23% average interest rate with a maturity date of November 20, 2018. The outstanding balance as of June 30, 2001, was \$1,460,000. Debt service requirements for fiscal years ending June 30, 2002, and thereafter are as follows:

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long-Term Debt (Continued)

B. Lewis County Detention Center (Continued)

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
November 20, 2001	\$ 37,975	\$ 50,000
June 20, 2002	37,248	
November 20, 2002	37,247	55,000
June 20, 2003	35,949	
November 20, 2003	35,949	55,000
June 20, 2004	34,650	
November 20, 2004	34,650	60,000
June 20, 2005	33,230	
November 20, 2005	33,230	60,000
June 20, 2006	31,760	
Thereafter	<u>468,034</u>	<u>1,180,000</u>
Totals	<u>\$ 819,922</u>	<u>\$ 1,460,000</u>

C. Lewis County Public Properties Corporation

In February 2000, the Lewis County Public Properties Corporation issued \$5,820,000 in First Mortgage Revenue Bonds for the construction of the Lewis County Justice Center. On the same day the Lewis County Public Properties Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Justice Center.

Lewis County and the Public Properties Corporation are acting as an agent for the AOC in order to plan, design, construct, manage, and maintain the Justice Center. The Public Properties Corporation and the county expect annual rentals for the use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

LEWIS COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 4. Long-Term Debt (Continued)

C. Lewis County Public Properties Corporation (Continued)

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until March 1, 2026, but the lease does not obligate the AOC to do so.

These bonds are scheduled to mature in March 2026; interest payments are due every six months starting September 2000, and principal payments are due annually beginning September 2001. At June 30, 2001, the principal balance outstanding on these bonds was \$5,820,000. Debt service requirements for fiscal years ending June 30, 2002, and thereafter are as follows:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2002	\$ 335,020	\$ 110,000
June 30, 2003	329,850	115,000
June 30, 2004	324,330	120,000
June 30, 2005	318,450	125,000
June 30, 2006	312,200	130,000
Thereafter	<u>4,026,395</u>	<u>5,220,000</u>
Totals	<u>\$ 5,646,245</u>	<u>\$ 5,820,000</u>

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding Principal</u>
General Fund:				
Voting Machines	1/20/1998	1/20/2002	4.440%	\$ 16,000
Black Oak Industries	1/18/2002	5/20/2006	4.40%	110,000
Road Fund:				
Road Equipment #2	6/3/1997	7/1/2002	4.624%	44,000
Grader	8/11/2000	8/20/2005	5.01%	122,819

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 6. Related Party Transactions

The county is currently depositing all funds into First Community Bank of Lewis County. The county judge/executive as well as the sheriff and county clerk are currently members of the board of directors of the First Community Bank. The county treasurer is also the operations officer of the same bank. These relationships between county officials and the depository bank could be considered conflicts of interest because the county does business with the bank. We refer this situation to the county Board of Ethics for review.

Note 7. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2), requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. Lewis County Jailer failed to maintain adequate records and report to the county treasurer as required by KRS 68.210 for fiscal year ended June 30, 2001.

The Lewis County Jail Canteen Fund had an ending balance of \$3,379 as of June 30, 2001. All profit expenditures were for the benefit and/or recreation of the inmates.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

LEWIS COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,567,212	\$ 1,532,481	\$ (34,731)
Road and Bridge Fund	1,416,653	1,393,685	(22,968)
Jail Fund	380,566	431,943	51,377
<u>Special Revenue Fund Type</u>			
FEMA Buyout Fund		98,143	98,143
Community Center Savings Fund		93	93
<u>Capital Projects Fund Type</u>			
Community Development Block Grant Fund	<u>742,500</u>	<u>819,112</u>	<u>76,612</u>
Totals	<u>\$ 4,106,931</u>	<u>\$ 4,275,457</u>	<u>\$ 168,526</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 4,106,931
Add: Budgeted Prior Year Surplus			<u>621,796</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 4,728,727</u>

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SCHEDULE OF OPERATING REVENUE

LEWIS COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type
REVENUE:				
Taxes	\$ 727,900	\$ 727,900	\$	\$
Excess Fees	25,750	25,750		
License and Permits	8,610	8,610		
Intergovernmental Revenues	3,325,940	2,408,685	98,143	819,112
Charges for Services	3,721	3,721		
Miscellaneous Revenues	153,293	153,293		
Interest Earned	<u>239,020</u>	<u>30,150</u>	<u>93</u>	<u>208,777</u>
Total Operating Revenue	<u>\$ 4,484,234</u>	<u>\$ 3,358,109</u>	<u>\$ 98,236</u>	<u>\$ 1,027,889</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

LEWIS COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 417,956	\$ 370,404	\$ 47,552
Protection to Persons and Property	709,081	705,673	3,408
General Health and Sanitation	706,700	429,325	277,375
Social Services	37,000	23,988	13,012
Recreation and Culture	6,500	3,034	3,466
Roads	1,303,640	1,289,427	14,213
Debt Service	217,000	158,540	58,460
Capital Projects	207,015	114,583	92,432
Administration	381,335	323,366	57,969
Total Operating Budget - General Fund Type	\$ 3,986,227	\$ 3,418,340	\$ 567,887
Other Financing Uses:			
Capital Lease Agreement- Principal on Lease		55,600	(55,600)
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 3,986,227</u>	<u>\$ 3,473,940</u>	<u>\$ 512,287</u>
Expenditure Categories	CAPITAL PROJECTS FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	<u>\$ 742,500</u>	<u>\$ 827,361</u>	<u>\$ (84,861)</u>

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SCHEDULE OF UNBUDGETED EXPENDITURES

LEWIS COUNTY
SCHEDULE OF UNBUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>FEMA Buyout Fund</u>
Land Purchases	<u>\$ 112,224</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George Plummer, Lewis County Judge/Executive

Members of the Lewis County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Lewis County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 14, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lewis County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2001 #1 through #5.

- 2001 - #01 Lewis County Fiscal Court Should Budget All Expenditures
- 2001- #02 The Lewis County Treasurer Did Not Post All Expenditures
- 2001- #03 FEMA Buyout And Community Development Block Grant Funds Were In A Deficit At The End Of The Fiscal Year
- 2001- #04 The Lewis County Treasurer Did Not Report All Funds On Her Quarterly Report
- 2001- #05 Lewis County Did Not Adopt An Administrative Code

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lewis County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lewis County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2001 #1 through #5.

- 2001- #02 The Lewis County Treasurer Did Not Post All Expenditures

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 14, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

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Members of the Lewis County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Lewis County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Lewis County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lewis County's management. Our responsibility is to express an opinion on Lewis County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lewis County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lewis County's compliance with those requirements.

In our opinion, Lewis County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Lewis County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lewis County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 14, 2002

FINDINGS AND QUESTIONED COSTS

LEWIS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Lewis County.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditor's Report. This condition is not reported as a material weakness.
3. Five instances of noncompliance material to the financial statements of Lewis County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Lewis County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Lewis County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant - Black Oak Industries Rail Spur (CFDA #14.228).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Lewis County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONCOMPLIANCES

2001- Finding #01

Lewis County Fiscal Court Should Budget All Expenditures

Lewis County Fiscal Court did not budget the FEMA Buyout Fund. Expenditures of this fund totaled \$112,224 for this fiscal year. According to KRS 68.280, the fiscal court may make provision for the expenditure of unanticipated receipts in the original budget by preparing an amendment to the budget. Lewis County Fiscal Court should have obtained a budget amendment for all FEMA Buyout Fund expenditures. Furthermore, the Community Development Block Grant Fund budget was overspent by \$84,861. According to KRS 68.300, any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. Lewis County Fiscal Court should have obtained a budget amendment for the additional Community Development Block Grant Fund expenditures. We recommend that the fiscal court determine that budget capacity is available before approving claims to be paid and prepare budget amendments for unanticipated receipts and expenditures.

County Treasurer Kathy Dillow's Response:

The checks were presented to the Treasurer on 6-30-01, funds were not available to pay expenditures. The checks were disbursed on 7-1-01 but the date was not changed to 7-1-01.

LEWIS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2001
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

2001- Finding #02

The Lewis County Treasurer Did Not Post All Expenditures

The Lewis County Treasurer did not post all expenditures to the appropriation ledger for FEMA Buyout and Community Development Block Grant Funds for fiscal year ended June 30, 2001. Three disbursements totaling \$45,691 were not posted to the FEMA Buyout Fund and three disbursements totaling \$23,500 were not posted to the Community Development Block Grant Fund. Pursuant to KRS 68.020(4), the treasurer must keep a detailed account of all money received and disbursed by him for the county, and must keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer. We recommend that all expenditures be posted in the appropriate fiscal year.

County Treasurer Kathy Dillow's Response:

The checks were presented to the Treasurer on 6-30-01, funds were not available to pay expenditures. The checks were disbursed on 7-1-01 but the date was not changed to 7-1-01.

2001- Finding #03

FEMA Buyout And Community Development Block Grant Funds Were In A Deficit At The End Of The Fiscal Year

The FEMA Buyout and Community Development Block Grant Funds were in a deficit at the end of the 2001 Fiscal Year. After addition of the unposted expenditures reported in note 2, FEMA Buyout Fund had a deficit of \$14,081 and the Community Development Block Grant Fund had a deficit of \$8,249. According to KRS 68.110(1), fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year. We recommend that the fiscal court determine if funds are available before expending money.

County Treasurer Kathy Dillow's Response:

The checks were presented to the Treasurer on 6-30-01, funds were not available to pay expenditures. The checks were disbursed on 7-1-01 but the date was not changed to 7-1-01.

LEWIS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2001
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

2001- Finding #04

The Lewis County Treasurer Did Not Report All Funds On Her Quarterly Report

The Lewis County Treasurer did not report the Flood Abatement and the Community Center Savings Fund on her 4th quarterly report for the 2001 Fiscal Year. According to KRS 424.220, public officers who receive or disburse public funds should prepare an itemized, sworn statement of all funds collected, received, held, or disbursed during the fiscal year. We recommend that the County Treasurer post all funds on her 4th quarterly report.

County Treasurer Kathy Dillow's Response:

Both accounts have been transferred to the General Fund.

2001- Finding #05

Lewis County Did Not Adopt An Administrative Code

During the course of our audit, we determined that the County had not adopted an administrative code as required by KRS 68.005. The administrative code should include at least the following procedures and designations of responsibility for: a) general administration of the office of county judge/executive, county administrative agencies and public authorities; b) administration of county fiscal affairs, including budget formulation, receipt and disbursement of county funds and preparation of records required for the county audit, and filing of claims against the county; c) personnel administration, including description and classification of non-elected positions, selection, assignment, supervision, and discipline of employees, employee complaints and the county affirmative action program; d) county purchasing and award of contracts; and e) delivery of county services. We recommend that the county adopt an administrative code as required by KRS 68.005.

County Treasurer Kathy Dillow's Response:

Will have approved before FY end.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

The County Should Adopt An Administrative Code.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LEWIS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants-		
Tollesboro Sewer Project (CFDA #14.228)	B95DC210001(048)	\$ 196,372
Black Oak Industries Rail Spur (CFDA #14.228)	99-115	<u>625,173</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 821,545</u>
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
Coordinator Salary (CFDA #83.503)	Not Available	\$ 9,433
Supplies (CFDA #83.503)	Not Available	4,073
February 2000 Flooding (CFDA #83.544)	Not Available	<u>66,533</u>
Total U. S. Federal Emergency Management Agency		<u>80,039</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 901,584</u></u>

LEWIS COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

